

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2002-34-E - ORDER NO. 2002-74  
JANUARY 31, 2002

IN RE: Request of South Carolina Electric & Gas            )  
Company for Approval of Accounting                        )  
Treatment of Buy/Resell Transactions,                    )  
Involving the Purchase and Resale of                    )  
Electricity in Wholesale Markets.                        )

ORDER APPROVING  
ACCOUNTING  
TREATMENT

This matter comes before the Public Service Commission of South Carolina (the Commission) on the request of South Carolina Electric & Gas Company (SCE&G or the Company) for an Accounting Order related to Buy/Resell Transactions involving the purchase and resale of electricity in wholesale markets. For the reasons stated below, we grant the request.

Over the past several years, the Company has engaged in a variety of transactions in the wholesale electricity markets. These transactions include purchasing electricity to meet the requirements of retail native load customers under least-cost guidelines and serving in-State municipal electric systems and electric cooperatives. SCE&G also sells its own generation to other utilities and power marketers. The sales are commonly referred to as off-system sales. The revenues from such sales are credited to the benefit of retail customers.

From time to time, according to SCE&G, the Company is also a party to what it refers to as Buy/Resell Transactions in which only power that it has purchased and none of its own generation is used. Buy/Resell Transactions can occur as part of an off-system

sale, wherein a portion of the energy requirement is met with the Company's generation and for which retail customers receive the benefit as previously mentioned. The remainder is met by power purchased from a third party. A second type of Buy/Resell Transaction is known as a pass-through transaction. This occurs when an off-system seller and buyer are found and matched, and the electricity passes through the Company's system. In order to be classified as a pass-through transaction, the electricity flowing into and out of the Company's system must match megawatt for megawatt after system losses. A third category is referred to as a non-system transaction in which no part of supply or delivery involves the use of the Company's system.

In accounting for the wholesale transactions described above, the Company states that it ensures that the lowest cost generation and purchased power is assigned to its retail customers. Only the highest cost purchased power is assigned to a Buy/Resell Transaction made as part of an off-system sale. The other Buy/Resell Transactions involve the purchase and sale of specific quantities of energy and are discretely tracked.

According to SCE&G, retail customers receive the benefit of the lowest cost energy to meet their needs as well as revenues associated with the use of SCE&G generation involved in making off-system sales. Since Buy/Resell Transactions are made without using SCE&G generation, the Company believes it is appropriate to account for Buy/Resell Transactions as part of non-operating income, or "below-the-line." In addition, because these transactions can result in a loss, the Company believes that it is appropriate to remove the risk from the ratepayer by accounting for these transactions in this matter. The Company would ensure that all administrative costs associated with

conducting Buy/Resell Transactions would also be accounted for below-the-line in order that no subsidization from the ratepayer would occur. The Company requests that this Commission confirm this accounting treatment effective for transactions beginning October, 2001.

We would note, as suggested by SCE&G, that our authority to approve the requested accounting treatment is provided for in S.C. Code Ann. Section 58-27-1540, which states that the Commission shall establish a system of accounts to be kept by electrical utilities under its jurisdiction and may prescribe the manner of keeping such accounts. Further, we have stated in the past that approval of accounting treatments shall not prejudice the right of any party to take issue with the amount or with the accounting treatment of the costs in future rate or earnings proceedings. See Commission Order No. 1995-655, dated September 16, 1999, relating to another SCE&G accounting matter. In addition, we also agree with the Company that we can render a decision in this matter without requiring a hearing, since no change in rates is being requested.

We have examined the proposed accounting treatment related to the Buy/Resell Transactions and hold that it is appropriate as proposed by the Company. We hold that the treatment is fair to all parties, ratepayers and shareholders alike. It is in the public interest, in our opinion, to approve the procedure as filed, effective with transactions beginning October, 2001. Again, any party may take issue with the amount or with the accounting treatment of the costs in future rate or earnings proceedings. No one's rights are prejudiced in this regard. Accordingly, we approve the proposed treatment effective with transactions beginning October, 2001.

This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

  
Chairman

ATTEST:

  
Executive Director

(SEAL)